

ANNUAL REPORT

Audit and Governance Committee

2017/2018



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RELATED DOCUMENTS

These documents will provide additional information:

REF NUMBER	DOCUMENT REFERENCE NUMBER	TITLE	VERSION

Contents

1. Introduction	4
2. Discharge of Duties during 2017/2018	5
3. Review of Effectiveness.....	8
4. Conclusions	9
Appendix 1 – Attendance at Meetings	10
Appendix 2 - AGC Duties (Extract from TOR)	11

1. Introduction

- 1.1 This report provides an overview of the work of the CCG's Audit and Governance Committee during the 2017/18 financial year. This Committee is the CCG's statutory Audit Committee, appointed in line with the Health and Social Care Act 2012 and its primary purpose, as defined in its terms of reference, is:-

"...to provide the governing body with an independent and objective view of the group's systems, information and compliance with laws, regulations and directions governing the group. It will deliver this remit in the context of the group's priorities, as they emerge and develop, and the risks associated with achieving them..."

- 1.2 In order to achieve this core purpose, the committee's terms of reference also set out detailed descriptions of specific duties and responsibilities required of it, which are undertaken as the committee meets throughout the year. These terms of reference are incorporated into the Clinical Commissioning Group's Constitution and published on the Group's website.

- 1.3 This report includes an assessment of how effective the committee has been in achieving its core purpose through meeting the duties and responsibilities in the terms of reference during the year. The evidence contained in this report will be shared with the CCG's Governing Body and also will be used to support the development of the organisations' Annual Governance Statement.

- 1.4 The committee had four scheduled meetings during the financial year:

- 18 April 2017
- 18 July 2017
- 17 November 2017
- 20 February 2018

As part of the process of signing off the CCG's Annual Report, Financial Statements and reports from the External Auditors the committee also held an additional meeting on 23 May 2017. Details of the attendance at all of these meetings are enclosed at Appendix 1 for information.

- 1.5 The committee, in line with its constitutional terms of reference, is chaired by the CCG's Lay Member for Audit and Governance and is made up of other Lay Members, including the Lay Member for Finance and Performance and an independent member. During the year, as result of broader changes in the Governing Body, Peter Price has returned to the committee to act as chair, initially on an interim basis and now on a permanent basis. Peter previously served on the committee prior to his appointment as lay member for Finance and Performance and brings both a wealth of experience of the CCG's work and continuity of leadership for the committee. Jim Oatridge, the previous Chair has remained part of the committee following his work as interim chair of the CCG's Governing Body.
- 1.6 All of the members of the committee have significant experience of financial, audit and governance and risk management matters. The committee considers that its independent make up is vital to ensuring that it discharging its duties in an appropriate way. The members aim to act as a 'critical friend' to the CCG's management team, providing challenge where required to ensure that robust systems of control are maintained.

2. Discharge of Duties during 2017/2018

2.1 As highlighted above, the Audit and Governance Committee has a key role in the CCG's Governance arrangements as its statutory Governing Body audit committee. As part of its role, it is charged with a number of specific duties by the Governing Body. These are listed in full in Appendix 2, but as part of its on-going review of effectiveness, the committee has chosen to group these duties into the following themes:-

- Internal Audit
- External Audit
- Governance
- Assurance/ Risk Management and Internal Control
- Accounting Matters

2.2 Details are set out below of the work undertaken by the committee during the year that give a picture of how these duties have been met. At its meeting in February, the Committee confirmed that this approach to reporting on its work and activity remained appropriate and also agreed to undertake a review of its broader effectiveness in line with national best practice.

Internal Audit

2.3 The Committee has maintained an oversight of the work of the CCG's Internal Audit provision by PricewaterhouseCoopers (PwC) throughout the year. Reports were provided to each scheduled meeting on progress with the Internal Audit Plan, which was agreed by the committee at the beginning of the year. The committee played a key role in ensuring that the finally developed plan was appropriately risk based by seeking assurance that issues such as integrated budgets with the local authority, IT security and QIPP delivery were fully taken into account in its development.

2.4 The Committee undertook a mid-year review of the Internal Audit plan to ensure that it remained focussed on CCG priority areas. This followed work within the CCG to respond to the previous years' internal audit review of risk management arrangements, including a refresh of the Governing Body Assurance Framework and Risk Register to ensure the plan took into account issues raised through this process. As a result, the updated plan included a follow up to the review of risk management arrangements, further details of which are discussed elsewhere in this report.

2.5 As part of the progress reports, the committee receives copies of completed internal audit reports and the committee received a number of reports from the 2016/17 Financial year at the May meeting. Other reports have been brought to the Committee's attention throughout the year. At the February meeting, the committee were also updated on plans to develop the Internal Audit plan for the upcoming 2018/19 financial year.

2.6 Part of the committee's role overseeing the work of the internal audit function is signing off both the internal audit annual report and Head of Internal Audit Opinion. These form a key part of the CCG's broader annual accounting and reporting processes and, the committee considered drafts of both at the April meeting before signing off the final versions at the May meeting. The Committee also received the Internal Audit Charter at its July meeting and subsequently arranged for this to be shared with the wider Governing Body later in the year.

External Audit

- 2.7 As highlighted in last year's committee report, the CCG have appointed new external auditors, Grant Thornton who have commenced work during the 2017/18 financial year. They provided an introductory report at the November committee meeting before bringing an outline External audit plan to the February meeting. The plan outlined areas to be considered in the external audit, recognising the context the CCG operated in. This reflected developments such as closer working with other NHS organisations through the Sustainability and Transformation Partnership (STP) and new models of primary care delivery as well as the CCG's track record of delivery and NHS England assessment as outstanding.
- 2.8 Details of the outcome of the work of the CCG's previous external Auditors, Ernst Young, were considered as part of the May meeting. Most significantly, this included the report to those charged with Governance which outlined key findings from the external audit, including the delivery of financial targets and the work to address concerns about risk management, which were found to have been effectively described in the annual reporting. The External Auditors subsequently issued an unqualified opinion on the CCG's financial statements for 2016/17.

Governance

- 2.9 The committee has maintained a broad overview of the CCG's governance arrangements during the year, in particular maintaining its focus on the CCG's arrangements for managing conflicts of interest. Further guidance from NHS England was considered by the Committee in July, and amendments to the CCG's policy for Declaring and Managing Interest were agreed as a result. The Committee noted that the CCG's policy already reflected many of the changes outlined through the updated guidance from NHS England. The committee also agreed that, in the interests of transparency, declarations of interest from all CCG staff would continue to be published on the CCG's website.
- 2.10 Throughout the year, the committee has recognised that the CCG's governance arrangements will need to continue to adapt to the local response to the national policy direction towards greater collaboration in the NHS. In the Black Country, this has included the establishment of a Joint Commissioning Committee across the four CCGs that make up the Black Country STP. Whilst the agenda and remit of this committee is still developing, the committee has worked with its equivalent committees in the other CCGs to develop a 'Governance Forum' to discuss approaches to audit work on areas commissioned jointly across the CCGs and how the CCGs will ensure this works effectively. Terms of reference for this group have been agreed and the outcomes of the groups meetings were discussed at the November and February meetings. This will continue to be a standing agenda to support this agenda going forward.
- 2.11 The Committee also continued its on-going review of the CCG's arrangements for Whistleblowing at its July meeting. Whilst noting that there had not been any disclosures under the whistleblowing policy, the committee made a number of suggestions for refining the policy that were taken into account when the policy was reviewed by the CCG's Remuneration committee at the end of 2017.
- 2.12 Following a request from the Chair, the committee has received an update on the CCG's preparation for the implementation of the EU General Data Protection

Regulation (GDPR). This included a brief update at the November meeting followed by a full report in February 2018 that outlined the steps taken and the action plan in place to ensure the CCG is compliant with new legislation when it is implemented in May 2018. The committee was assured that a proportionate and effective action plan was in place and that it was being monitored by the Quality and Safety Committee in line with that Committee's terms of reference.

- 2.13 Finally, as part of assessing its effectiveness, as well as receiving earlier drafts of the annual committee report, the committee has drafted amendments to its terms of reference to take into account its expanded role in risk management. The committee have also been kept updated on the development of the CCG's Annual Governance Statement, including considering an initial draft of the statement in February 2018.

Assurance/ Risk Management and Internal Control

- 2.14 As highlighted in last year's report, the committee has maintained an overview of the CCG's response to an Internal Audit review of Risk Management that contained a number of significant findings. An action plan was developed, and the committee has been kept updated with progress through the year at each of its scheduled meetings. The Committee noted at its July meeting that a number of actions in the plan had not been completed and have received further assurance at the November and February meetings that significant improvements in line with the action plan had taken place.
- 2.15 The committee have been advised that Executive responsibility for Risk Management has been transferred to the Director of Operations, with the Corporate Operations Manager taking on day to day responsibility for developing the risk management strategy and supporting teams across the CCG in identifying and reporting risks. In November, the Committee were updated on a revised approach to populating the Governing Body Assurance Framework (GBAF) which had been re-profiled around the CCG's strategy priorities. The GBAF is now being supported by Corporate level and Committee level risk registers and the Committee received an update at its February meeting on the development of these risk registers and the committees' discussions in these areas.
- 2.16 A revised risk management strategy has been developed, which clearly defines the role of the Audit and Governance committee in maintaining a primary overview of the CCG's risk management arrangements, providing assurance to the Governing Body that the committee's reviews of risks appropriately support the population of the GBAF, which can then be used as an effective management tool for the organisation. The committee also noted at the February meeting that the follow up review by the Internal Audit service recognised the significant steps forward taken by the CCG in this area during the year. Whilst work remains to ensure that the new arrangements are fully embedded, the committee has been assured that plans are in place to ensure that the CCG continues to effectively identify, mitigate and manage the risks it has identified.
- 2.17 One of the ways in which the committee gains assurance that risks are being effectively managed is through the use of deep dives into particular areas of risk. In July the committee undertook a brief deep dive into the CCG's mitigation against an identified risk of cyber attacks, using the WannaCry virus attack as a case study. The risk of cyber attack is detailed on the CCG's risk register as a relatively low risk due to significant work undertaken in conjunction with Royal Wolverhampton Trust (which provides IT services across the health economy) to mitigate against the impact of risks. The briefing on the cyber attack demonstrated the effectiveness of

the measures in place, which had ensured that the IT estate across Wolverhampton was not affected by the virus attack and patients were not impacted as they had been in other areas. The committee were assured that the process of identifying, assessing and mitigating the risk was demonstrably appropriate.

- 2.18 Other areas of internal control considered by the committee include Counter Fraud and Security Management, plans for which were agreed at the beginning of the year and then update on progress provided at each quarterly meeting. No significant issues have been identified during the year and the committee will continue to maintain an overview of these areas through the year.

Accounting Matters

- 2.19 The most significant work the committee undertakes in relation to accounting matters is to scrutinise the preparation of the CCG's annual accounts and reporting. A draft version of the annual accounts was presented to the April committee and the final version was recommended to the Governing Body for sign off in May 2017. As part of this process, the CCG were given assurance around a number of specific elements of the technical accounting arrangements. The committee, in recommending the accounts noted the work undertaken as well as the unqualified opinion issued by the External Auditors and assurance from NHS England.
- 2.20 The committee's terms of reference set out some specific responsibilities for reviewing issues such as special payments, losses and the use of waivers and or breaches of the CCG's Detailed or Prime Financial Policies. The committee also maintains an overview of receivables and payables greater than £10,000 and over 6 months old. The Chief Finance Officer reports on these issues at each of the committees meetings. No significant concerns have been raised as a consequence of these reports, however the committee have asked that details of contracts renewed by the use of waivers are reviewed to ensure appropriate procurement mechanisms are used.

3. Review of Effectiveness

- 3.1 As in previous years, the committee has undertaken a review of its effectiveness using a self-assessment tool for Audit Committees developed by the Department for the Environment, Food and Rural Affairs. This review highlights areas for the committee to consider to determine whether it meets its roles and responsibilities effectively, including the structure and content of the committee's meetings, the link with the CCG's Governing Body and support available to members of the committee.
- 3.2 The self-assessment has identified that the committee has a clear role that is understood by both the members and wider organisation, that the committee is sighted on CCG wide issues and has adequate time available to conduct their role in a meaningful way. It was noted that, due to the timing of meetings and the national deadline for the submission of accounts, the committee had had a more limited opportunity to review the annual accounts.
- 3.3 Areas that the review identified for further work in the upcoming year included appraisals for committee members and continual review of committee effectiveness. The Chair has undertaken to discuss arrangements for appraisals for both committee members and the wider Governing Body with the Governing Body Chair during the

year and this will be discussed through the remuneration committee. The committee will consider approaches to reviews of its own effectiveness throughout the year, including review at meetings.

4. Conclusions

- 4.1 The committee believes that the evidence set out above demonstrates that it has effectively met the requirements of its terms of reference. In particular, the committee's focus on addressing previously identified issues with risk management arrangements ensures that it continues to make a positive contribution to the CCG's governance and internal control arrangements.
- 4.2 As the CCG continues to operate in a changing environment, the committee will continue to ensure it provides the appropriate assurance that the CCG continues to meet its statutory duties in the most effective ways possible. As the CCG explores options for different ways of discharging its duties through both STP wide collaboration and more locally based expressions of Place Based Care the committee will continue to play a key role in ensuring the implications for both broader governance of the CCG and providing assurance through audit mechanisms remain high on the agenda. This will include continued and increasing closer working with our colleagues in other CCGs through the mechanisms we have already begun to establish.

Appendix 1 – Attendance at Meetings

Attendee		Meetings Attended (of those required)	Notes
Committee Members	Peter Price (Chair)	4 of 4	Joined the Committee in May 2017
	Les Trigg	5 of 5	
	Dean Cullis	5 of 5	
	Jim Oatridge	4 of 5	Attended May and July meetings in capacity as Interim Chair of the CCG
CCG Staff	Claire Skidmore (Chief Finance and Operating Officer)	2 of 2	Left the CCG in May 2017
	Tony Gallagher (Chief Finance Officer)	3 of 3	Joined the CCG in June 2017
	Peter McKenzie (Corporate Operations Manager)	4 of 5	
	Steve Forsyth (Head of Quality & Risk)	1 of 2	
	Maria Tongue (Head of Financial Resources)	3 of 3	
External Attendees	Alison Breadon (Head of Internal Audit, PwC)	1 of 1	
	Joanna Watson (Senior Manager, PwC)	5 of 5	
	Neil Mohan (Senior Manager LCFS, PwC)	4 of 4	
	Shaun Grayson (LSMS, CWAS)	2 of 3	
	Hassan Rohimun (Executive Director, Ernst Young)	1 of 1	EY were the CCG's External Auditors for 2016/17
	V Sarjan (Audit Manager, Ernst Young)	3 of 3	
	T Faniadou (Audit Senior, Ernst Young)	1 of 1	
	Mark Stocks (Audit Partner, Grant Thornton)	2 of 3	Grant Thornton are the CCG's External Auditors for 2017/18
	Jim McLarnon (Audit Manager, Grant Thornton)	1 of 1	

1. Appendix 2 - AGC Duties (Extract from TOR)

The AGC is accountable to the group's governing body and its remit is to provide the governing body with an independent and objective view of the group's systems, information and compliance with laws, regulations and directions governing the group. It will deliver this remit in the context of the group's priorities, as they emerge and develop, and the risks associated with achieving them.

The AGC shall critically review the group's financial reporting and internal control principles and ensure that an appropriate relationship with both internal and external auditors is maintained.

The specific duties required of the AGC are:

- i) reviewing the group's adherence to the principles of good governance (constitution 4.5);
- ii) monitoring the group's performance in delivering:
 - (a) the duty to act effectively, efficiently and economically (constitution 5.2.3);
 - (b) its general financial duties as regards expenditure not exceeding allotments and use of resources, both total and specified types, not exceeding specified amounts (constitution 5.3.1 - 5.3.3);
- iii) monitoring the group's performance in delivering the duties relating to:
 - (a) acting consistently with the promotion of a comprehensive health service and the mandate issued for each financial year by the Secretary of State to NHS England (constitution 5.1.2(a));
 - (b) obtaining appropriate advice as part of processes for potential or actual changes to commissioning arrangements (constitution 5.2.9(b)).
- iv) reviewing the reasonableness of any decision to suspend Standing Orders and considering reports on any suspension of Standing Orders at any meeting (SO 3.9) and any non-compliance with Prime Financial Policies, scrutinising any proposed changes thereto and determining any referring action or ratification (PFP 1.2.1);
- v) reviewing the group's arrangements to manage all risks and receive appropriate assurance thereon through an integrated governance framework;
- vi) satisfying itself that there is an effective internal audit service (PFP3) and adequate arrangements for countering fraud (PFP4), reviewing the work and findings of the external auditors and approving any changes to the provision of delivery of assurance services to the group (PFP3.4(b));
- vii) reviewing the annual report and financial statements before submission to the governing body and the group; and
- viii) scrutinising any proposed changes to Prime Financial Policies (PFP 1.5.1).

Integrated governance, risk management and internal control

The AGC will review the establishment and maintenance of an effective system of integrated governance, risk management and internal control, across the whole of the group's activities that support the achievement of the group's objectives.

The AGC will be responsible for reviewing and approving the group's overall strategy for Risk Management and reporting to the Governing Body on its effectiveness.

Its work will dovetail with that of the other Governing Body committees, which the group has established in order to seek assurance that robust arrangements are in place for

- Financial and performance management arrangements;
- Effective arrangements for commissioning healthcare services (including those delegated from NHS England in respect of Primary Care); and
- monitoring clinical quality to ensure patient safety.

Each of the committees has a specific role in these areas and monitor and manage the risks associated with these areas on behalf of the Governing Body. The AGC will review the arrangements in place to support this and in particular, will review the adequacy and effectiveness of:

- all risk and control related disclosure statements, (in particular the governance statement), together with any appropriate independent assurances, prior to endorsement by the group;
- underlying assurance processes, including the work of the other committees of the governing body, that indicate the degree of achievement of group objectives, the effectiveness of the management of principal risks and the appropriateness of the above disclosure statements;
- policies for ensuring compliance with relevant regulatory, legal and code of conduct requirements and related reporting and self-certification;
- policies and procedures for all work related to fraud and corruption as set out in Secretary of State's directions and as required by NHS Protect.

In carrying out this work the AGC will primarily utilise the work of internal audit, external audit and other assurance functions but will not be limited to these sources.

It will also seek reports and assurances from those working for and providing services to the group as appropriate, concentrating on the overarching systems of integrated governance, risk management and internal control, together with indicators of their effectiveness.

This will be evidenced through the AGC's use of an effective assurance

framework to guide its work and that of the audit and assurance functions that report to it.

Internal audit

The AGC will ensure that there is an effective internal audit function that meets mandatory NHS Internal Audit Standards and provides appropriate independent assurance to AGC, the Accountable Officer and the group. This will be achieved through:

- consideration of the provision of the internal audit service, its cost and any questions of resignation and dismissal;
- review and approval of the internal audit strategy, operational plan and more detailed programme of work, ensuring that this is consistent with the audit needs of the organisation as identified in the assurance framework;
- considering the major findings of internal audit work (and management's response) and ensuring co-ordination between the internal and external auditors to optimise use of audit resources;
- ensuring that the internal audit function is adequately resourced and has appropriate standing within the group;
- an annual review of the effectiveness and the level of satisfaction with the services of internal audit;
- approval of the internal audit charter.

External audit

The AGC will review the work and findings of the external auditors and consider the implications of their reports and any management responses to their work. This will be achieved by:

- consideration of the performance of the external auditors, as far as the rules governing the appointment permit;
- discussion and agreement with the external auditors, before the audit commences, on the nature and scope of the audit as set out in the annual plan, and ensuring co-ordination, as appropriate, with other external auditors in the local health economy;
- discussion with the external auditors of their local evaluation of audit risks and assessment of the group and associated impact on the audit fee;
- a review of all external audit reports including the report to those charged with governance, agreement of the annual audit letter before its submission to the group and work undertaken outside the annual audit plan, together with the appropriateness of management responses.

Other assurance functions

The AGC shall review the findings of other significant assurance functions, both internal and external, including regulators and inspectors, and consider the implications for the governance of the group. The AGC will approve any changes to the provision or delivery of assurance services to the group (PFP 3.4(b)).

The AGC has full authority to commission any reports or surveys it deems necessary to help it fulfill its obligations, with the necessary funding to be agreed with the Chief Finance Officer by the AGC's Chair.

Counter fraud

The AGC shall satisfy itself that the group has adequate arrangements in place for countering fraud, including the need to work effectively with NHS Protect, approve the counter fraud work plan and review the outcomes of counter fraud work (PFP 4.2 – 4.3).

Management

The AGC shall, as appropriate, request and review reports giving positive assurances or identifying risks from senior managers and those responsible for providing services to the group on the overall arrangements for governance, risk management and internal control

Financial reporting

The AGC shall monitor the integrity of the financial statements of the group and any formal announcements relating to the group's financial performance.

The committee shall ensure that the systems for financial reporting to the group, including those of budgetary control, are subject to review as to completeness and accuracy of the information provided to the group.

The AGC shall review the annual report and financial statements before submission to the governing body and the group, focusing particularly on:

- wording in the governance statement and other disclosures relevant to the terms of reference of the AGC ;
- changes in, and compliance with, accounting policies, practices and estimation techniques;
- unadjusted mis-statements in the financial statements;
- significant judgements in preparing of the financial statements;
- significant adjustments resulting from the audit;
- agreement of the letter of representation before it is signed, on behalf of the governing body; and
- qualitative aspects of financial reporting.